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INTELLIGENCE MEMORANDUM

THE IMPLICATIONS OF THE NEW SOVIET ECONOMIC POLICY

CIA/RR IM-383

30 December 1953

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(ORR Project 7)

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THE IMPLICATIONS OF THE NEW SOVIET ECONOMIC POLICY

Summary and Conclusions

The Soviet economic policy announced by Malenkov in August 1953 and amplified in the following month by numerous decrees and speeches purports to be a reversal of the long-standing policy of stressing industrial development to the neglect of improving the lot of the Soviet consumer, and it specifically modifies the consumption goals of Stalin's Fifth Five Year Plan (1951-55). Soviet leaders have also implied that their peaceful intentions are evidenced by the very small increase in budgeted defense expenditures in 1953. A careful analysis of the announced policy goals and of measures subsequently taken to inaugurate the program leads ORR to conclude that Soviet leaders genuinely intend to implement the program and that the growth of defense expenditures will be drastically reduced in the period 1953-55.

Essentially the new program contemplates a leveling off of military expenditures, a moderate rise in consumption, and a change in composition of investment, but little change in the trend of the investment total. Under the recent revisions of the Fifth Five Year Plan the rate of growth of the economy for the next 2 years will be the same as previously forecast under the original plan -- that is, about 6.5 percent annually. The output of consumer goods will increase at an annual rate of about 7.5 percent and that of producer goods at about 10 percent.

Military production will rise at a rate of the order of 5 percent per year, an amount sufficient to re-equip the existing armed forces with new types of military hardware. This is a significant reduction from the rate of growth of military production in 1950-52, which was 27 percent annually. The rates of increase under the revision in the Plan are such that the share of consumption in the gross national product will remain almost constant at about 54 percent instead of continuing its recent decline, which was projected by the original Fifth Five Year Plan. The share of investment in the total will rise somewhat, and that of defense will decline significantly. Although

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the new program involves a substantial decrease in the rate of growth of the military establishment, it probably does not imply any considerable slowing down in growth of Soviet industrial capacity to support war.

One impact of the shift in Soviet economic policy, according to ORR estimates, is that consumers will receive 5 percent more real income in 1955 than under the Fifth Five Year Plan, investment expenditure will be about the same amount, and defense expenditure will be about 25 percent less. The rate of growth of the gross national product will not be affected, except for transitional adjustments in 1953. These adjustments occur principally in the fabricated metals industries, which were required to change their output mix, and in defense industries, which markedly reduced their rate of growth in 1953. There also has been a rapid temporary decline in the rate of new investment as a result of the reformulation of the whole construction program.

Qualitatively the rise in the scale of living will be proportionately larger than the aggregate increase would indicate. The major emphasis in the food products sector is upon the achievement of greater availabilities of quality dietary items such as meat, dairy products, vegetables, and canned goods. The emphasis in textile production is similarly upon the higher quality items of apparel. The largest relative increases in output are slated for consumer durables, which have been conspicuously absent from the Soviet market basket.

The conclusions above are based on ORR estimates, which do not accept some of the announced goals as feasible. The most difficult goals to fulfill in the new consumer goods program will be the agricultural goals. The expansion of agricultural output is the most important phase of the new program. To facilitate its execution, the government has adopted far-reaching measures aimed at increasing incentives through greatly increased procurement prices, lower delivery quotas, reduction of tax rates, larger investments in equipment and fixed facilities, higher priorities for the output of machinery and chemical plants and for transportation and construction services, and a redirection of skilled labor back to the countryside. Despite these measures, shortages of mineral fertilizers, specialized equipment, and trained personnel probably will prevent full achievement of the agricultural production plans. The revised consumer nondurable goods program is in part dependent

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upon agricultural production and also probably will not be completely fulfilled. It should, however, come close to fulfillment than the agricultural goals. The consumer durables and trade objectives will be least affected by limitations upon the agricultural sector.

The revised goals for retail trade are significantly larger than the goals for consumer goods production. The success of the retail trade program is dependent on foreign trade, reduction of subsistence agriculture, and perhaps stockpile withdrawals, in addition to domestic production. Recent sharp increases in Soviet purchases of consumer goods in the Free World suggest use of non-Soviet Bloc sources of supply to help fulfill the distribution program. Gold sales may be regarded as only one of several means the USSR may employ in increasing export volume to pay for expanding imports of both consumer and capital goods. The size of the deficit between production and retail trade in perishable food items probably also indicates an intention to bring about a shift from direct home and farm consumption to distribution through retail marketing channels.

It seems clear that the increment to consumption will not come out of resources devoted to investment. The increase in consumer goods output is impossible without additional investment in consumer goods industries. The new program involves a change in the composition of investment (for example, a transfer from heavy industrial equipment to light and medium industrial equipment) but does not imply a reduction in the aggregate magnitude of investment.

The probable increase in consumer welfare under the new policy is such that a reduction in the rate of growth of military output and in some lines of producer goods output becomes a necessity if the revised program is to be achieved. Continuation of the consumer goods program on its contemplated scale is premised on little change in the 1953 level of military procurement. The present and immediately foreseeable international climate evidently must appear to the USSR not to require any extensive growth in the size of the military establishment. The only additional defense outlays required would be those necessary to provide new, technologically advanced equipment for a defense force of relatively constant size. In addition to replacing obsolescent equipment of the active military force, provision probably has been made to keep military inventories supplied with the latest equipment. Inventory accretions of conventional weapons may well have been substantially curtailed.

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Using US experience as a guide, ORR analysts have concluded that the cost of supplying a military force of a given size with a representative sample of newly developed military hardware would increase military procurement outlays by an annual rate of 4 to 5 percent. The rise in explicit budgetary defense allotments between 1952 and 1953, interestingly enough, also lies within this range. Calculation of defense expenditures as a residual after consumption, investment, and other government expenditures gives a range of rate of growth of defense of the same order of magnitude.

The scope of the available policy pronouncements, the volume and detail of the decrees, and numerous local and provincial press statements indicate a genuine intention to carry out the portion of the new program related to consumer goods. Whether or not goals now are being, and in the future will be, fulfilled cannot be conclusively determined at this time, but at least Soviet intentions to implement the revised plan are apparent.

The motives behind the policy changes are mixed. Although the regime probably is influenced by keen awareness of the benefits accruing, in terms of labor productivity, from its allocation of a larger share of available resources to consumers, its ability to raise consumer goods targets is postulated upon a basic decision not to increase substantially the size of the defense establishment.

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I. Scope of the Revised Plans and Indicators of Their Implementation.

A. Changed Policy Emphasis.

Before the death of Stalin, basic postwar Soviet economic policy exhibited very pronounced trends. In the 4 years after the war, 1946 to 1949, emphasis was placed on economic recovery and expansion, with stress on the capital goods industries. Defense claims upon the economy dropped back to the relative position held during the late 1930's. The individual consumer commanded a smaller share of the gross national product (GNP) than was available to him in the immediate prewar years.

Just about the time recovery was substantially completed, international tension increased, leading the USSR to accelerate greatly its defense program. Although some of the resource burden for accelerated military production involved a diversion of resources from investment activities, the consumer, already in a tightened situation relative to his prewar position, was obliged to undergo a relatively larger sacrifice. Analysis of the Fifth Five Year Plan (1951-55) discloses Soviet intentions to continue to increase the defense share and reduce the consumption share of GNP. The share of investment was to rise slightly. Similar conclusions were reached by ORR studies based upon information available at that time.

Six months after the death of Stalin the new regime announced a dramatic and startling change in economic policy. In Malenkov's now famous speech on 8 August, he outlined a program for improving the lot of the long-suffering Soviet consumer. The announced program implied a revision of the Fifth Five Year Plan and reversed, as Malenkov pointed out, a 20-year Soviet policy of giving first priority to the development of heavy industry. This speech was followed in the next few months by a series of speeches and decrees giving detailed form to the general program that Malenkov outlined. The emphasis and accompanying propaganda of these decrees left no doubt that the Soviet administration intended the world, including the Soviet people, to believe that a significant reallocation of resources in favor of consumer goods was being inaugurated.

Prior to Malenkov's speech before the Supreme Soviet in August, there were several indications of a change in policy. These indications included a substantial retail price cut in April, coupled with the announcement of a 50-percent reduction of the State loan in June. These actions resulted in a substantial increase in consumer

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purchasing power. A Pravda editorial of 11 June indicated that there existed a plan for a substantial increase in the production of consumer goods over the production previously planned for 1953. Thus early indications existed demonstrating Soviet intent to increase the supply of goods simultaneously with the increase in purchasing power. A Pravda editorial on 8 July illustrated something of the magnitude of the previously indicated revision in the consumer goods program: "... An increased output of consumer goods amounting to over 20 billion rubles in excess of the envisaged annual plan for consumer goods turnover." The later announcement of the first half-year plan fulfillment showed a significant increase in the retail turnover and in the distribution of many commodities.

In this earlier period a thorough reorganization in the ministerial structure of the government was carried out which reduced the number of ministries from 50-odd to half that number. The reorganization appeared to be directed mainly toward administrative economy and increased decentralization in management of the economy, as is evidenced by the transfer of some industrial control from Gosplan to the economic ministries. An organizational development related to the imminent new policy was the transfer of the wholesale and marketing offices of the light and food industries and the rubber footwear sales enterprises of the chemical industry to the Ministry of Trade. Essentially this step tends to allow the consumer a larger voice in the determination of the composition of consumer goods production. In mid-September, following the announcement of the new policy, additional ministerial changes were instituted which seemed more closely related to the new policy. These changes allowed for specialization in the sectors scheduled for high priority under the new program by dividing the Ministry of Light and Food Industry into two ministries, creating a Ministry of State Farms and a Ministry of Procurement separate from the Ministry of Agriculture.

The timing of the announcement of the new policy along with the 5-month delay in presentation of the 1953 budget suggests that the new policy, while it may have been considered prior to Stalin's death, had not been developed in any detail. The 6 months from Stalin's death to the meeting of the Supreme Soviet apparently was required by the new regime to work out the voluminous detail and ramifications of the new program.

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B. Indications of Implementation of the New Policy.

The contrast of the new program with the long-continued historical Soviet economic policy of "heavy industry first" was so dramatic that its announcement was at first greeted by many observers with legitimate skepticism and caution. By now, however, the accumulation of evidence appears to leave little doubt that the Soviet leadership is genuinely determined to carry out the new policy. A summary of this evidence follows.

One of the most impressive indications of Soviet intent is the volume and detail of the speeches and decrees following Malenkov's original announcement of the policy. These decrees have given extensive detail regarding goals, operational procedures, organizational changes, price adjustments, employment shifts, and plans for redirection of output. The economic sectors, covered by the various speeches and decrees, included agriculture, food processing, other consumer goods (both durable and nondurable), retail trade, and, to a lesser extent, foreign trade. The only major area where no announcement has been forthcoming as yet is housing, where drastic improvement is urgently needed.

Additional evidence of Soviet intent to implement the new plan is shown by a comparative analysis of Soviet press and radio broadcasts reporting on successes and problems in the consumer goods industries, especially food processing. Beginning in the summer, the number of such news items relating to these industries was impressively larger than the number of items in the corresponding period of 1952.

One implication of an extensive reallocation of resources is the appearance of decline in some types of investment, which in turn tends to make possible an increase in investment in other fields. The curtailment of activity and partial abandonment of the Main Turkmen Canal, one of the prized "great socialist construction projects," is one of several indications of such a transfer of resources.

In addition to the evidence cited above, a considerable number of specific items in some of the Soviet press and radio broadcasts give further details concerning implementation of the new policy at the local or enterprise level (for a list of these news items, see Appendix A). Especially impressive are the measures apparently being carried out in agriculture to improve the quality of personnel and all phases of production and marketing.

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Time has not permitted a comprehensive compilation of all the indications noted in the press. The appended list, however, is considered to be indicative and supports the view that implementation of the new consumer goods policy is progressing vigorously throughout the USSR. The ORR conclusion is that the Soviet leadership is genuinely dedicated to the fulfillment of the new program. The intelligence problems that remain are to measure the magnitude of the new policy and the feasibility of carrying it out, as well as its effect on the rest of the economy. These questions are considered in the following sections of this memorandum.

C. Comparison of Revised Plans with Original Plans, 1950-55.

Although there are extensive details furnished in official statements on plan revisions, comparison with the original plans is made difficult by the paucity of comparable data provided in the original Five Year Plan. The revisions are concerned only with consumer goods. Thus conclusions as to the changed behavior of the rest of the economy must be based on sources other than official releases. The same qualification applies to those consumer goods, such as cereal products, for which no new goals have been advanced. For some products, only comparative targets for retail trade have been issued. Here, deductions concerning changes in production must take into account evidence of foreign trade patterns and judgments of changes in retail trade as a proportion of total distribution.

Despite the extensive publicity given to specific consumer goods production goals, only a few comparative statistics have been made available. They have been assembled in Table 1.\* Comparisons also are listed for available retail distribution targets.

No official statement has been made in regard to revisions of the aggregate goal for consumer goods production other than Malenkov's declaration that the 65-percent increase contemplated in the Fifth Five Year Plan would be fulfilled considerably before 1955, probably by the end of 1954. 1/\*\* The rise in production of foodstuffs under the revised plan will be 85 percent, while under the old plan the increase was set at 71 percent, an upward revision of 20 percent over original goals. Within the foodstuff category less than the 20-percent average increase in production for the 5-year period has been planned for meat, fish, butter, sugar, and beer.

\* Table 1 follows on p. 9.

\*\* Footnote references in arabic numerals are to sources listed in Appendix C.

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Table 1

Comparative Soviet Goals for Increases in Production  
and Retail Distribution of Selected Commodities  
under Old and Revised Official Plans  
1950-55

Product	Percent			
	Production		Retail Distribution	
	Old Plan	New Plan	Old Plan	New Plan
Meat	92	100	90	130
Fish	58	83	70	110
Butter	72	76	70	90
Vegetable Oil	77	92	100	160
Sugar	84	97	100	130
Canned Fruits and Vegetables	100	122		
Beer	80	80		
Textiles			70	80
Cotton Goods	61	64		
Woolen Goods	50	68		
Silk Goods	235	340		
Socks and Stockings			100	120
Knitwear			120	170
Clothing			80	140
Leather Footwear	55	60		
Furniture			200	300
Bicycles			250	450
Sewing Machines			140	410
Radio and TV Sets			100	340
Watches			120	100
Foodstuffs	71	85		
Retail Trade			70	100

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The average rate of increase has been planned for vegetable oil. Greater-than-average production increase has been planned only for canned fruits and vegetables among the enumerated items. The only important items excluded from specific mention are grain products. Since the whole stress of the new food program is on quality items, it seems likely that the grain product target has not been raised. Omitted products in which large upward revisions may have been planned include milk, cheese, and confectionery products. Their total weight in the food index, however, is small. Therefore, the increase in the new production goal for foodstuffs is inexplicably higher than the weighted total for enumerated component products.

Upward revisions in the retail distribution goals for many products are much larger than the increase in their respective production indexes. These and similar discrepancies will be analyzed in Section III, B, below.

The increase in the textile targets is not large. A weighting of the cotton and woolen production indexes indicates a revision of about 14 percent. Comparative retail distribution goals yield a similar result. The leather footwear increase is somewhat lower.

No comparative production aims have been delineated for consumer durables. The explicit retail distribution indexes, however, disclose changes in intentions of larger relative magnitude than for food or textiles. For this group of items there should be little discrepancy between growth of production and retail distribution, except as explained by imports.

D. Comparison of Revised Official Plans with ORR Estimates, 1950-55.

ORR estimates that Soviet production capabilities are substantially below official goals for food products, are lower to a lesser extent for textiles, and tend to be in close agreement on consumer durables. Whereas the new planned increase in the output of food for the 5-year period is set at 85 percent, the ORR estimate indicates a production increase of only 40 percent. The largest divergence between planned goals and ORR production estimates is in meat, fish, dairy products, sugar, and vegetable oils. The degree of difference ranges from 18 percent for butter to 67 percent for meat products. Soviet growth estimates for production of the highly processed food items, such as canned fruits and

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vegetables, confectionery products, and alcoholic beverages, are generally accepted by ORR. On the two enumerated textile items, cotton and woolen cloth, ORR accepts the official cotton cloth index of growth and sets an increase for woolen cloth at 23 percent less than the announced Soviet goal. The ORR growth estimate for leather footwear is 23 percent below the Soviet goal. It is not possible to make comparisons on consumer durables, as no official indexes have been published. ORR analysts have been inclined, however, to accept the official physical output targets for 1954 and 1955.

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II. Soviet Economy in 1953, 1954, and 1955 under the New Plan.

A. Gross National Product by Economic Sectors under the New Plan.

During the period 1948 to 1952, Soviet GNP increased at an average annual rate of over 10 percent. During 1950 the increase still exceeded 9 percent. In 1953 the increment to GNP fell off sharply to less than 4.5 percent. In 1954 and 1955 the growth rate is expected to increase again to an average annual rate of about 6.5 percent.

1. Industrial Output.

The rate of growth of GNP may be best approached by a detailed examination of the economic sectors which comprise the GNP index. Industrial output, which had risen by 12.5 percent in 1952, increased by only 7 percent in 1953 and is expected to advance by approximately 8.5 percent per year in 1954 and 1955 (see Table 2).<sup>\*</sup> The decline in the rate of expansion of industrial output has been most evident in the defense, food processing, and fabricated metals sectors. Defense outlays exercise an important influence on the behavior of industrial growth as a whole, the decline in the growth rate being less than half as large if military production is excluded. It is assumed that the rate of increase in military production will be the same in 1954 and 1955 as in 1953, between 4 and 5 percent. This assumption is based on the belief that military requirements in the period will not occasion extensive growth of military output. Rather, the military situation will entail only an annual increment in value of output necessitated by providing a given defense establishment with improved, more complex equipment. The estimated annual increase is based upon the rise in explicit budgetary outlays for defense between 1952 and 1953.<sup>\*\*</sup> This estimated increase of 4 to 5 percent is the same as ORR's estimate of the annual increase in cost due to increased complexity of military equipment and hence allows for the

<sup>\*</sup> Table 2 follows on p. 14.

<sup>\*\*</sup> The constant size of the defense establishment permits one to assume that personnel and maintenance costs are constant. If research and development outlays are included in the final cost of finished equipment, the change in the defense appropriation is reflected entirely in the military procurement component.



Table 2

Soviet Gross National Product by Sector of Origin

Sector	Weight x		1950		1951		1952		1953		1954		1955	
	Weight	Index	Sector	Index	Sector	Index	Sector	Index	Sector	Index	Sector	Index	Sector	Index
Industry	39.7	100	3,970.0	113	4,486.1	128	5,081.6	137	5,438.9	149	5,915.3	161	6,391.7	
Agriculture	21.8	100	2,180.0	103	2,245.4	108	2,354.4	103	2,245.4	106	2,310.8	109	2,376.2	
Construction	5.9	100	590.0	112	660.8	124	731.6	134	790.6	146	861.4	160	944.0	
Transportation	8.6	100	860.0	113	971.8	123	1,057.8	130	1,118.0	136	1,169.6	142	1,221.2	
Communications	1.1	100	110.0	109	119.9	119	130.9	129	141.9	140	154.0	154	169.4	
Trade	6.2	100	620.0	105	651.0	109	675.8	114	706.8	120	744.0	127	787.4	
Services	16.8	100	1,680.0	105	1,764.0	111	1,864.8	117	1,965.6	123	2,066.4	130	2,184.0	
Total			10,010.0		10,899.0		11,896.9		12,407.2		13,221.5		14,073.9	
Gross National Product														
$\left(\frac{\text{Weight}_{51} \times \text{Index}_{51}}{\text{Weight}_{51} \times \text{Index}_{50}}\right)$		100		109		119		124		132		141		
Annual Rate of Growth			8.9%		9.2%		4.3%		6.6%		6.4%			
Absolute Value of GNP		893		973		1,063		1,108		1,181		1,257		
In Billions of 1951 Rubles														

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continual re-equipment of the Soviet military forces with the latest types of military equipment. Any marked deterioration in Soviet foreign relations would compel reconsideration of the military output estimate.

A further check on the estimated growth in defense outlays is provided by considering defense as the residual component in GNP remaining after estimated trends in investment and consumption have been considered. Since it is estimated that the rise in GNP in 1954 and 1955 will range from 6 to 7 percent per year, the margin left for expansion of defense ranges from zero to 8.5 percent annually.

Food processing and certain fabricated metals sectors constitute the other areas in which there was a significant reduction in the rate of growth for 1953. The slackening in the expansion of the processed food industry resulted from the poor grain harvest and a reduction in the slaughter of livestock. This reduction is occasioned by adverse weather conditions and may be assumed to be reversed by average weather conditions. Under the new agricultural program, livestock deliveries and meat output will exceed the 1952 level. Together with expansion of food production in other areas on both an extensive and an intensive basis, the new program should enable the processed food industry to increase the value of its output by about 6 percent a year during 1954-55.

The partially arrested expansion in fabricated metals production in 1953 is a reflection of the readjustment to a new economic policy. The energy, chemicals, and metals industries are unaffected by the switch in policy emphasis, but the fabricated metals industry has to change the composition of its production. No decline in total output of the industry is implied. There will probably be, however, a temporary slowdown in its growth. After adjustments to the revised plan have been completed, the expansion in output of the fabricated metals subsector in 1954 and 1955 will be equal to the rate obtained from 1950 to 1952. The adjustment is particularly marked in the automotive equipment industry. The necessity to change the structure of tractor output explains the small 1953 increase and the return to the 1952 percentage increment in production for 1954 and 1955.

The rate of expansion of energy production is fairly uniform over the whole period from 1950 to 1955, except for a substantial increase in electric power generation in 1954 and 1955 as hydroelectric

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projects come to completion. The behavior of the growth pattern in nonferrous metallurgy is irregular, but it appears to be in no way correlated with broader economic policy changes. The growth picture in ferrous metallurgy is steady. The chemicals and construction materials indexes do not appear to vary in accordance with the basic policy shifts. Forest products output still moves along at its slow, regular pace.

Greatly accelerated rates of increase in output will be forthcoming in 1954 and 1955 in the branches of fabricated metals production which furnish equipment for consumer goods production -- agricultural machinery, food-processing machinery, textile machinery, woodworking machinery, and refrigeration machinery. Since these branches comprise only a small fraction of the total fabricated metals output, their production can be greatly enlarged without forcing a significant reduction in the expansion of other branches of metals fabrication. In fact, there will be an acceleration of total machinery output sufficient to cover the output of the newly emphasized branches and to maintain production growth rates elsewhere. The rate of increase will rise from less than 8 percent in 1953 to over 11 percent in 1954 and 1955.

Manufactured consumer goods production will increase about 8 percent in 1953 as compared with an increase of about 8.5 percent in 1952. The factor chiefly responsible for the reduction in the rate of growth of this area was the lack of expansion of leather footwear output. As the results of the policy shift become evident in this sector, the rate in 1954 will slightly exceed that of 1952. In 1955, manufactured consumer goods output is expected to increase by 9 percent.

2. Agricultural Output.

The agricultural production index for 1952 and 1953 has been strongly affected by cyclical weather factors. Abnormally favorable weather in 1952 led to a 4.5-percent increase in output as compared with an average annual increase of 3 percent for the post-war years. Meteorologically speaking, 1953 was a poorer than average year, and farm output declined by over 4 percent. The increase foreseen for 1954 and 1955 will average about 3 percent per year, average weather conditions being assumed. Total output in 1955 will be only slightly higher than in bountiful 1952. The food crop and livestock increment index closely parallels that for agriculture as a whole.

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The growth possibilities for industrial crops are brighter. Since relative increases in output in 1954 and 1955 are expected to be at least twice as high for consumer goods processed from basic agricultural materials as for the farm crops themselves, it is apparent that other factors, such as improved distribution, foreign supply sources, and more complicated processing, will be operative if the planned goals are to be realized. Discussion of these other variables will be found in Section III, B, below.

3. Other Economic Sectors.

The behavior of the construction index reflects the change in basic economic policy. In 1951 and 1952 the value of construction had increased by 12 percent and 11 percent, respectively. During 1953, general economic policy changes compelled a reshuffling of the investment program, particularly a cessation of spectacular river-control projects and increased allocations of productive factors to consumer goods industries and agriculture. As a consequence of these shifts, total construction in 1953 rose only about 7 percent. Regularization of construction activity in 1954 and 1955 probably will result in expansion at an annual rate of at least 9.5 percent. This increase will be sufficient to secure the 60-percent growth in construction announced in the original Fifth Five Year Plan. ORR estimates indicate no change in the total volume of investments in the revised plan.

The trade sector will experience a somewhat more rapid expansion of activity in 1954 and 1955 than in the three previous years. Such an increase will derive both from a larger output of consumer goods and from the redirection of distribution from nonmarket to market channels. As far as can be foreseen, the basic policy shift will not affect the pattern of growth in the transportation, communications, and services sectors. It would have seemed consistent for the regime to have announced additional expansion of service elements of consumption, particularly housing. No such announcements had been made, however, at the time of this writing.

B. Gross National Product by Economic Sectors under the Original Plan.

Compared with the most recent published estimate on Soviet economic aggregates, 2/ there has been a reduction from 7.2 percent to 5.7 percent in the anticipated average annual growth in Soviet

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GNP between 1952 and 1955. The growth forecast for the entire period 1950-55, however, was almost identical. The old estimate did not anticipate the bountiful harvest of 1952 and thus understated the growth for that year. This understatement was offset by overstatement of the 1953 growth. The old forecast did not foresee the leveling-off of defense outlays and the short-run re-adjustment resulting from the current policy change.

Using the period 1952-55 as a basis of comparison, important differences in the rate of growth of GNP components are evident from Table 3. The growth of industrial production as a whole is about the same in both estimates. As a result of revision of Soviet economic policy, expansion of producer goods output (excluding military production) is expected to be somewhat lower, and consumer goods output is

Table 3

Changes in Estimates of Percentage Increase  
in The Production of Selected Economic Activities, 1952-55  
Occasioned by the Revised Soviet Economic Policy

<u>Economic Activity</u>	<u>Present Estimate</u>	<u>Old Estimate</u>
Industry	26	28
Producer Goods	27	32
Consumer Goods	24	17
Defense Goods	13	37
Machinery	34	24
Electrical Machinery	39	30
Electrical Equipment	55	45
Automotive Equipment	11	7
Agricultural Machinery	50	0
Food-Processing Industry	16	14
Manufactured Consumer Goods	28	16

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expected to be significantly higher, than under the old program. The growth of defense production will be reduced to less than 40 percent of the former rate of increase.

There are also substantial increases in production forecast for certain machinery sectors which equip industries engaged in the production of consumer goods. Differences in estimates for growth of the transportation, communications, agriculture, construction, and services sectors are minor. The same condition obtains in the energy and metals sectors of industry. Comparison of the two sets of estimates (see Table 3) bears out the general thesis that the only substantial relative reduction in production emphasis that has occurred has been in military output.

C. Allocation of Gross National Product by End Uses.

The military establishment of the USSR had been receiving an ever-increasing portion of Soviet GNP over the period 1950 through 1952 (see Table 4).<sup>\*</sup> Increased military expenditures were made possible by a decline in the rate of growth throughout the rest of the Soviet economy. Consumption expenditures which had been sharply reduced from pre-World War II levels bore a major share of the burden of increased military outlays. Over the period 1950 through 1953, during which Soviet GNP increased about 24 percent and Soviet military outlays increased 54 percent, Soviet investment expenditures increased 23 percent and Soviet consumption expenditures increased by only 19 percent.

The most prominent change in the allocation of GNP between 1953 and 1955 will occur in the share accruing to the military establishment. There will be a small relative gain by consumption and a larger gain by investment. Apparently, increased welfare for the consumer will not entail any significant sacrifice in the rate of economic growth except during the transitional year 1953. Rather, both consumer and investment objectives will benefit from a slackened rate of increase in the armament program. Consumers will receive 14 percent more in 1955 than in 1953, and investment will be 17 percent better endowed. Defense outlays will be increased only 5 percent during the same period. GNP will increase about 13 percent.

<sup>\*</sup> Table 4 follows on p. 20.

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Table 4

Soviet GNP by End Uses under the Revised Estimate

Use	Percentages of GNP					
	1950	1951	1952	1953	1954	1955
Consumption	56.2	55.6	54.6	54.0	54.3	54.4
Administration	3.7	3.4	3.2	3.2	3.1	3.1
Defense	12.0	13.2	15.3	14.9	14.3	13.8
Investment	28.1	27.7	26.8	27.8	28.3	28.7
GNP	100.0	100.0	100.0	100.0	100.0	100.0

Use	Billion 1951 Rubles					
	1950	1951	1952	1953	1954	1955
Consumption	502	541	581	599	641	684
Administration	33	33	34	36	37	39
Defense	107	128	163	165	169	173
Investment	251	270	285	308	334	361
GNP	893	973	1,063	1,108	1,181	1,257

The magnitude of the revised Soviet economic policy may be drawn in sharper relief if the present consumption targets are compared with consumption targets based upon the original Fifth Five Year Plan and ORR estimates of the likely achievement of targets under the original plan (see Table 5).<sup>\*</sup> Estimates based upon the original Fifth Five Year Plan indicated a continuous decline in the share of consumption expenditure through 1955, at which time consumption expenditure would be 50 percent of GNP.

Proportions developed from official plan data fully supported this contention. In absolute terms, consumers will be better off by 34 billion rubles in 1955 than would have been the case under the old

<sup>\*</sup> Table 5 follows on p. 21.

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Table 5

## Soviet GNP in 1955 under Varying Estimates

Use	Percentages of GNP			
	Old Plan		Revised Plan	
	ORR Estimate	Official Estimate <sup>3/</sup>	ORR Estimate	Official Estimate
Consumption	51	50	54.4	56.5
Administration	2	3	3.1	2.9
Defense	18	18	13.8	13.2
Investment	29	29	28.7	27.3
GNP	100.0	100.0	100.0	100.0

Use	Billion 1951 Rubles			
	Old Plan		Revised Plan	
	ORR Estimate	Official Estimate <sup>3/</sup>	ORR Estimate	Official Estimate
Consumption	650	676	684	744
Administration	26	40	39	39
Defense	229	243	173	173
Investment	369	392	361	361
GNP	1,274	1,351	1,257	1,317

estimate. In relative terms, consumer welfare will have gained by 5 percent. This more favorable situation for the Soviet consumer will occur despite a decline of 17 billion rubles in total GNP from the original plan to the revised plan.

The investment allocation is virtually unchanged from the estimate based upon the original Fifth Five Year Plan. The defense share has been radically lowered from the old estimate. It is 56 billion rubles, or 24 percent, less. The reduction from the official plan goal is even larger.

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If it were possible to fulfill all of the consumer goods goals in the new program, the relative gain of consumption would be larger. The investment share would decline relatively in 1954 and 1955, and the drop in the percentage of resources devoted to defense would decline even more sharply than in the present estimate. Consumers would receive 27 percent more in 1955 than in 1953. Growth of the other end uses is assumed to be unchanged from the new ORR estimate, but total GNP would rise by 19 percent.

Note on Methodology

The basis for constructing estimates of GNP by end uses was an unpublished paper on 1951 Soviet GNP. <sup>4/</sup> The breakdown computed by the author was considered insufficient, as no adjustment for turnover tax was made among the components. The distribution of the turnover was based on a previous RAND report <sup>5/</sup> modified by adjustment of an intuitive nature to correct for subsequent policy changes. Once the 1951 distribution was established, the percentage breakdowns were converted to ruble terms. The 1951 values were then moved by relevant sector indexes. Consumption was moved by the consumer goods index, investment by the nondefense components of the producer goods index, defense by the defense industry index, and administration by the services index. This method is subject to important qualifications which will be considered in future studies on Soviet economic aggregates, but it serves well as a first approximation.

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III. Conclusions.

A. Feasibility of Production Plans.

1. Feasibility of Fulfillment of Related Investment Plans.

Official Soviet pronouncements in recent months have included figures on investment allocations to the principal activities benefiting from the new policy. The impact of the shift in investment allocations and the probability of realizing the larger allotments can be measured by comparing total planned allocations to the affected activities under the new policy with total investment in the economy and by comparing the increase in investment requirements for the newly favored activities with the increase in total investment availabilities.

It is difficult to obtain precise data on investment allocations by economic branches and sectors, especially for agriculture. The figures in Table 6,\* based on plans or ORR estimates, are not exact, as they represent approximate orders of magnitude upon which to base conclusions. The rate of increase in investment announced by the Russians for the first half of 1953 over the corresponding period in 1952 was only 4 percent, as compared with a rise of 11 percent in 1952 and more for previous years. This fact, coupled with the probability of the suspension of large spectacular projects, such as the Main Turkmen Canal, makes it appear likely that a readjustment of investment priorities was in process. Soviet claims that total investment could be accelerated to such an extent in the last half of 1953 that a growth of 9 to 10 percent for the year could be obtained appear extravagant. The statements, however, do indicate a belief that the new investment pattern was sufficiently crystallized to allow investment to proceed more smoothly than in the first 6 months of the year.

During the first half of 1953 there appeared to be no shift of investment resources to agriculture or the consumer goods industries, since the increase in investments in the light and food industries was less than the 1952 percentage increase. In early 1953, therefore, the new policy had the effect of reducing the total availability of investment funds rather than changing their composition.

\* Table 6 follows on p. 24.

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Table 6

Soviet Gross Investment in Total and by Selected Sectors, 1952-54  
as Indicated by Official Announcements

Sector	Billion Rubles		
	1952	1953	1954
1. Manufactured Consumer Goods	3.0 <u>a/</u>	3.1 <u>b/</u>	5.9 <u>b/</u>
2. Food Processing	4.4 <u>c/</u>	4.8 <u>d/</u>	8.5 <u>d/</u>
3. Trade	0.4 <u>e/</u>	0.8 <u>f/</u>	1.7 <u>f/</u>
4. Supplements to Local Enterprises by 1, 2, and 3 <u>g/</u>	1.3	1.5	2.7
5. Agriculture (Budgetary Allotments) <u>h/</u>	9.0	14.0	17.0
6. Collective Farm Investments	12.0 <u>i/</u>	17.0 <u>j/</u>	20.0 <u>k/</u>
Total	<u>30.1</u> <u>l/</u>	<u>41.2</u>	<u>55.8</u>
Total Investment	256.9 <u>l/</u>	274.9 <u>m/</u>	303.2 <u>n/</u>

a. Source gives total investments for 1951-53 as 9 billion rubles. The 1953 figure is known, and the 1952 index is known to be 109 percent of 1951. 6/

b. 7/

c. Extrapolation of official indexes of investment in the light and food industries on 1945 base yields, 1952 figures, which are converted to 1953 prices by deflator. Subtraction of manufactured consumer goods industry investment leaves food industry investment as residual.

d. 8/

e. Estimate based on lesser responsibility of trade ministry.

f. 9/

g. Represents investments by producer and consumer cooperatives. Their employment total is one-half that of manufactured consumer goods, food, and trade ministries. Capital per worker is assumed to be one-third of that in these State ministries; so investments are assumed to be one-sixth of latter.

h. Based on extrapolation of official index; moved by budget figure, assuming investment to constitute 18 percent of total

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Table 6

Soviet Gross Investment in Total and by Selected Sectors, 1952-54,  
as Indicated by Official Announcements  
(Continued)

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allotment; 1954 figure based on Khrushchev estimate.

- i. Extrapolation of previous index, adjusted by behavior of State investments in agriculture.
- j. 10/
- k. Estimate of S/CST analysts.
- l. Based on official index.
- m. Based on official increase of 4 percent in first half of year and assumed average 5-year growth rate of 10 percent in last half.
- n. Based on average 5-year period growth rate of 10 percent.

In the last half of 1953 there appears to have been a small transfer of investment resources to the newly favored activities, even though it is assumed that total investment has risen by the approximate 5-year average of 10 percent. The transfer does not seem to be of such magnitude that it would impinge upon the total available investment outlay. Requirements of the newly stressed activities have risen by 11 billion rubles over 1952, as shown in Table 6, and total investments have risen by 18 billion rubles, which allows for a 3-percent increase in investment in other sectors. Since the average for these other sectors was less than 4 percent in the first half of 1953, the rise in the latter part of the year will be about 3.5 percent.

In 1954 the pressure of agriculture and consumer industries on general investment requirements appears to be somewhat less stringent. Out of an estimated increase in total investment of 28 billion rubles, requirements of agriculture and consumer goods industries will increase by 14.6 billion rubles. Remaining new investment resources would allow for a 6-percent increase in allotments to other activities.

In 1955 the proportion of investment outlays available for other economic activities should rise. The announced 1956 goal in production of agricultural products and consumer goods indicates relatively modest increases over 1955 and therefore would not require any significant rise in investment in 1955. Therefore, a larger proportion of new resources could be allotted to other sectors.

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S-E-C-R-E-T2. Constraints Imposed by Raw Material, Manpower, and Equipment Limitations.

ORR does not believe that all of the consumer goods goals are feasible, for the reasons outlined below. Differences between official goals and ORR estimates for selected consumer goods aggregates are given in Table 7.

Table 7

Differences between Soviet Official Goals  
and ORR Estimates for Selected Consumer Goods Aggregates  
1954-55

Sector	(1950 = 100)			
	<u>ORR Index</u>		<u>Official Index</u>	
	<u>1954</u>	<u>1955</u>	<u>1954</u>	<u>1955</u>
Food Products	133	140	140	169
Manufactured Consumer Goods	149	163	149	174
All Consumer Goods	142	154	145	168

The resource limitations on the ability of the Soviet economy to fulfill the consumer goods program can be roughly divided into manpower, material, and equipment limitations. The goals themselves can be conveniently classified by agricultural products, consumer nondurables (processed food and textile products), consumer durables, and consumer services. The effect of production limitations for each broad type of goal in turn are considered below.

a. Agricultural Products.

Revised agricultural production goals seem least likely of achievement. All three types of limitations cited above will be operative in limiting achievement of planned agricultural production goals, materials being the most serious limitation. Since Soviet agricultural expansion must henceforth be largely intensive in nature, the availability of mineral fertilizer is essential to completion of the proposed program. The official increase anticipated for the production of mineral fertilizer is not deemed sufficient in 1954 and 1955 to enable agricultural output to expand to the desired level. ORR

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estimates of agricultural production for 1955 are 15 percent below official Soviet goals.

Equipment shortages constitute a less certain factor. The announced goals for row-crop tractor and agricultural machinery production indicate peak production rates occurring in 1955 and 1956. Whether or not the late 1953 and 1954 rates of output will limit crop output in 1954-55 is conjectural.

The manpower limitation in agricultural production has two basic aspects. One concerns the incentives provided to kolkhoz members, and the other concerns the training of skilled operatives to man the large increased machinery park. Since ORR assumes that the manufactured consumer goods program will be substantially fulfilled, the increased availability of consumer nondurables and durables to the rural population will be substantial. Together with increased monetary incomes, the incentive effects of the program should be important. A manpower limitation may be apparent in the provision of trained and experienced MTS personnel. Training periods require from 6 months to a year, and at least another 2 years are needed to give the operators adequate field experience. The end result of this training requirement is to introduce a lag in the attainment of maximum utility of power machinery that may retard desired crop expansion.

b. Consumer Nondurables.

Consumer nondurables utilize agricultural products as basic inputs in their productive processes. To the extent that agricultural goals are incapable of fulfillment, consumer nondurable goals may not be realized, assuming no withdrawals from stockpiles, no expansion of imports, and no reduction in exports. Items most likely to be affected by this type of limitation are woolen cloth and clothing, linen cloth and sewn products, meat products, and dairy products.

There is little indication that lack of industrial equipment will seriously affect production of textile and food products. The output of both textile and food-processing machinery is expected to rise enough in late 1953 and in 1954 to insure that they will not be the restraining inputs on production. There should be adequate manpower forthcoming for these newly favored industries. Relative wage rates

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have recently been raised in the two branches. Female workers will probably provide most of the new labor force requirement.

c. Consumer Durables.

The consumer durable goals are those most likely to be attained. The basic materials consist of metallurgical, mechanical, and fabricated electrical equipment inputs. The resource problem is one of diversion of existing and/or new capacity in the metals, metal fabrication, and electrical machinery industries from heavy industrial and military enterprises to manufacturers of consumer goods. The degree of diversion is slight. The planned rise in consumer durable goods production in 1953 will be equivalent to less than 2 percent\* of the total output of the fabricated metals and defense industries. If the entire burden of the increase in consumer goods output were confined to the last half of the year, the diversion from other enterprises would amount to only about 4 percent.

The increase in consumer durables production of 10 billion rubles in 1954 will amount to less than 4.5 percent of the total value of output in defense industry and fabricated metals. In 1955 the increment of 18 billion rubles in consumer durables production will comprise less than 7 percent of total value of output in the aforementioned industries.

The equipment limitation is subject to the same restriction imposed by material inputs. Since plants producing consumer durables would compete for capital equipment with those producing machined products and armaments, the limitation on the production of consumer goods is contingent upon Soviet willingness to divert equipment originally ticketed for heavy industry and armaments. On this basis, equipment does not appear to be a restrictive factor.

The same conclusion advanced in regard to the manpower problem in consumer nondurables is applicable to the category under discussion. For the most part, these products would be produced in industries which have long enjoyed high relative wage rates and high priority in securing the services of new entrants into the industrial labor force.

\* This estimate is based on an official statement concerning retail sales of consumer durables and on ORR estimates of the percentage of total output comprised by consumer durables.

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d. Consumer Services.

The proposed expansion of State and cooperative trade needs to be examined in the light of the equipment and manpower limitations. The "materials" of trade are consumer goods produced by other ministries; so their adequacy will depend on the output achievements of the manufacturing ministries.

The equipment requirements of trade consist mainly of buildings, refrigeration machinery, store equipment, and transport equipment. Directives giving the needs of the Ministry of Internal and Foreign Trade a higher priority on construction materials and automotive equipment indicate a concerted interest to fulfill these requirements. There is no inclination on the part of ORR analysts to challenge the refrigeration machinery goals.

As for manpower, there should be no limitation exercised. The additional labor force required is relatively small. The Ministry of Internal and Foreign Trade has announced a comprehensive training program for both new and present sales personnel.

B. Feasibility of the Revised Retail Distribution Plan.

The feasibility of the revised retail distribution plan for 1955 (see Table 1\*) is essentially a function of four variables, as follows:

1. Production levels for specific commodities outlined in the distribution plan.
2. Foreign trade (imports) in specific commodities outlined in the distribution plan.
3. Stockpiling status of specific commodities outlined in the distribution plan.
4. Marketing channels employed for specific commodities outlined in the distribution plan.

Inasmuch as the increase in Soviet production levels stipulated in the revised Fifth Five Year Plan are in almost every case less than the indicated increase in retail turnover, each of the variables outlined above assumes a role of some significance in assessing the probability of

\* P. 9, above.



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Soviet achievement of the planned retail turnover. Imports, reduction of stockpiles, and revision of marketing channels of the commodities indicated in Table 1 may individually or in some combination close the gap between Soviet and ORR production estimates and Soviet retail turnover estimates. A discussion of the feasibility of production levels for specific commodities outlined in the distribution plan is contained in III, A, 3, above, and is the point of departure for the discussion of the remaining variables outlined above.

The USSR probably can achieve the stipulated program of expansion of retail turnover if its gambit (see III, B, 3, below) of change to a system of incentives and rewards as opposed to a system of threats and punishments is successful. If the individual Soviet citizen responds to the gambit in the fashion that Soviet planners anticipate, the program will succeed. If the Soviet citizen fails to respond in the manner in which the planners anticipate, the series of enticing moves outlined in III, B, 1 and 2, below, may provide the added incentive, but, more likely, should the initial response be negative, the program may well collapse. It is believed that, while the Soviet authorities have dedicated substantial effort to the realization of the revised plan, failure of the plan would not significantly jeopardize the position of the Soviet economy and fulfillment of the plan might well considerably enhance the position of the Soviet economy at least through the period 1956-60. This estimate is based upon the proposition that a workable system of incentives to Soviet working people might push back for a few years a rather rapid decline in labor productivity.

1. Extent to Which Foreign Trade Will Aid in Fulfilling the Revised Retail Distribution Plan.

Several recent changes in the structure of Soviet foreign trade indicate that the USSR intends to achieve a portion of the planned increase in retail distribution from imports of specific commodities for which increases in trade turnover have been planned. The USSR has concluded a new trade agreement with Denmark, increasing Soviet imports of butter and meat. The USSR has also concluded a new trade agreement with Argentina which will make available to the Russians substantial quantities of wool, cheese, lard, and meat. A sharp increase in Soviet sales of precious metals since mid-1953 seems to have been directed at redressing adverse Soviet balances of hard currencies, especially sterling, that have been built up over several months. Gold sales are not believed to be the result of a direct increase in the

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current purchases of consumer goods. The USSR has negotiated agreements with both Iceland and the Netherlands calling for imports of specialty fish items, and in July orders were placed with the Netherlands for immediate delivery of 500,000 meters of woolen goods and 500,000 meters of rayon goods. Additional increases in textile purchases from France were negotiated during 1953. The foregoing measures indicate at least a short-run effort to implement the revised retail distribution of consumer goods by foreign trade activity. It is impossible from the data currently available to draw the conclusion that the USSR will continue to expand imports of consumer goods over the period of the revised plan. However, Soviet ability to implement the plan by foreign trade and an inference of Soviet intent to implement the plan by foreign trade seem to be indicated by the above actions.

The commodity composition of USSR-Soviet Bloc trade for 1954-55 probably will be much the same as that which obtained for 1950-52. It may be noted that the 1953 trade pattern between the USSR and European Satellites was gravely distorted by the poor harvest in the latter area. The general increase in attention to production of consumer goods over the Bloc may result in some minor increases in the role of consumer goods in the intra-Bloc trade. It is unlikely that the USSR will be able to increase its imports of the critical items on its consumer goods list from Communist China or the Satellites. China may be able to increase its exports of edible oils and fruits by a small amount, but if China were able to trade with the West, the amount of edible oil available to the USSR might well be reduced below present levels. It is also unlikely that the USSR will be able to increase imports of critical consumer goods items from the European Satellites, which are simultaneously (with the USSR) engaged in attempting to expand the production and availability of the identical consumer goods.

The USSR exports a considerable volume of food (primarily cereals and cereal preparations) to secure foreign exchange to finance required imports. The absence of revision of cereal and cereal product output and distribution goals tends to indicate that the present and planned production and distribution for cereals is of such a magnitude as to allow the USSR to continue to export substantial quantities of these items without interference with the revised Fifth Five Year Plan.

The distribution plans for fish, fats and oils, and textiles are largely dependent on foreign trade for their ultimate achievement. Certainly a part of the planned increase in meat turnover must be achieved by increased imports, although the major portion of the planned

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increase in meat will derive from expected changes in marketing channels. It is not feasible to try to estimate the physical magnitude of imports of the above-indicated items and thus to tie import availabilities directly to domestic availabilities of specific consumer goods items. Two limitations dictate this situation. First, trade data are couched in almost all cases in monetary terms; thus precise estimates of physical quantities made available cannot be derived from trade data. Second, the future pattern of foreign trade is an unknown quantity. It is believed that should the USSR be willing to continue to revise import trade in the direction of increased availability of fish, meat, fats and oils, and textiles and textile fibers that the portion of the revised distribution plan to be supplied from foreign trade could be achieved without significant disorganization of the internal Soviet economy.

A rapid increase in Soviet sales of gold and other precious metals has taken place since mid-1953. It should be noted that, despite this increase, Soviet sales of these metals for the first 11 months of 1953 are running at an annual rate of about 85 percent of the 1951 rate, when little notice was taken of Soviet gold shipments and when the international price of gold was not believed to be unduly depressed. Should the monthly rate of Soviet sales of gold since September be maintained, it would be necessary to reassess the role of gold in Soviet foreign trade. The substantial gold exports of recent months appear to be aimed at a redress of adverse Soviet balances of hard currencies, most of which adverse balances had been apparent before implementation of the revised plan had been initiated. Although the restoration of balance in the hard currency area may be an indication of Soviet desire or intent to increase imports of consumer goods from this area in the future, it may not be construed to indicate a Soviet decision to finance imports of consumer goods from goldstocks.

The USSR has a large highly diverse economy upon which it may draw for commodities to enhance its export trade. Gold is only one of the commodities that may be drawn. The sharp decline in the price of gold that has occurred in the past few months would certainly make future use of gold for export a more questionable alternative than it has been in the past. There exists at present insufficient knowledge of Soviet gold and other precious metal stocks to support a contention that the USSR could undertake a substantial expansion of import trade financed in large part by such metals.

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2. Stockpiling Depletion as a Source of Supply for Implementing the Revised Retail Distribution Plan.

The Soviet stockpiling program, like its entire economy, has in the past been directed at assuring the maintenance and growth of production and the defense of the country. For this reason, the USSR has accumulated large reserves of only those consumption items needed to achieve these goals. Primary among these is grain, but meat, sugar, and other foods are also included. Stockpiles of such quality foods as milk, vegetables, and butter are not believed to be large, while most manufactured consumer goods have not been stockpiled at all. For this reason, even though the present situation is the type of contingency in which Soviet doctrine calls for the release of stockpiles, these reserves are not likely to provide more than temporary and limited contributions to the revised retail turnover plan. Their chief use may lie in providing increased supplies in particular localities at particular times when performance threatens to be conspicuously below promises. Grain stockpiles also can be used to provide increased exports.

No information has been received to suggest any revision in the original Fifth Five Year Plan goal for a doubling of state food and material reserves. Any plans to reduce stockpile accretions for the sake of the increased retail turnover plans would signal a reversal of Soviet stockpiling policy, which regards the accumulation of reserves as a first step in the solution of a distribution problem.

3. Extent to Which a Shift in Distribution from Nonmarket to Market Channels May Implement the Achievement of the Revised Retail Distribution Plan.

It seems apparent from the difference between revised production and distribution targets in Table 1\* that Soviet planners intend to make up a major share of this discrepancy by attracting production from subsistence consumption to traditional market channels. Should the planners be able to effect a significant diversion of the output of meat, butter, edible oils, dairy products, and fruits and vegetables from nonmarket to market channels, the battle of increased retail turnover would be substantially won. The Soviet agricultural population currently consumes a significant portion of the production of the above commodities on the farm, and some production unquestionably is

\* P. 9, above.

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diverted to illicit trade channels. The commodities thus consumed do not become incorporated into retail turnover figures.

Two main attacks have been launched to bring a considerable portion of the nonmarket distribution into the organized market place. First, the Ministry of Agriculture has substantially increased the real price which the farmer received for his meat, dairy, and vegetable products in organized state markets. 11/ Thus the farmer will be able to increase his money income significantly by increasing production, and he will not be penalized pricewise for what he sells to the State. Furthermore, the industrial worker in the city will be encouraged to increase output to buy the increased supply of food which will be available. Second, a concerted effort is to be made to distribute a larger portion of the increased production of manufactured consumer goods to stores in rural areas than hitherto has been the practice. 12/ Thus the farmer will be able to use his newly increased money to purchase consumption goods which have previously been unavailable. If this circuitous system of incentives and rewards instead of threats and punishment were successfully implemented, the USSR would likely achieve the indicated production and distribution goals.

In general, the intense initial effort made to implement the revised plan (see I, B, and III, B, 1, above) is crucial to the success of the plan. Only if the Soviet farmer and industrial worker can see the tangible result of the program and respond to its stimuli at an early stage is there any likelihood that the plan may bear fruit over such a short period. It is difficult to forecast with any even remote degree of accuracy the possibility that such a radically different approach to Soviet production and distribution will be embraced by the Soviet citizenry. Increases in trade turnover for the second quarter of 1953 show a substantial advance (almost 100 percent) over the rate obtaining in any quarterly period since the first quarter of 1951. 13/ This indication is sufficiently isolated as not to be considered definitive, and it is also sufficiently high as not to be disregarded.

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APPENDIX A

INDICATORS SUGGESTING IMPLEMENTATION OF THE NEW SOVIET ECONOMIC POLICY

The following indicators are submitted as evidence which suggests a new policy toward agriculture and consumer goods in the USSR.

FBIS 223, 16 November 1953:

1. At the plenary session of the Central Committee of the Consumer Goods Cooperation Workers Trade Union, the Chairman of the Board of the Central Union of Consumer Goods Societies illustrated the rise in goods turnover in the rural trading network by saying that "the average daily turnover in rural cooperatives enterprises in October of last year equaled 277 million rubles, but [that] during the corresponding period of this year, despite low prices, it already amounted to 340 million rubles."

FBIS 222, 13 November 1953:

2. Pravda article by Gatovsky, "Growth of Popular Consumption and Development of Soviet Trade":

"... In 1953 as compared to 1940, production of consumer goods has grown 72 percent ... . If during the previous years, goods turnover was, on the average, growing annually, in comparative prices, 13 percent, in 1953 it has already grown 20 percent."

3. Pravda, 8 July 1953, Current Digest of Soviet Press, Vol. V, No. 27, pp. 31-32, "Steadily Improved Soviet Trade":

"In 1953, in conformity with government orders, consumer goods output will increase by a sum totalling more than 20 million rubles above the annual volume established earlier for the trade volume."

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4. In the first half of 1953 the Moscow Dynamo Plant imeni S.M. Kirov ... increased production of consumer goods by one-third.

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FBIS, 23 October 1953, pp. BB40:

5. It has been reported that for the Ukraine 12,784 specialists and skilled workers are said to have returned to agriculture before November. Of these, 10,598 are agronomists and zootechnicians.

FBIS 223, 16 November 1953, pp. AA31:

6. On 5 October 1953 the USSR Council of Ministers ordered supply ministries to consider deliveries of raw materials and equipment to light industry as first priority irrespective of fulfillment of deliveries to other consumers.

M/CI Contribution to ORR Project 7:

7. Indications that the government's new policy is being implemented by the food industry are suggested chiefly by the following:

a. An influx of monitored radio broadcasts, unprecedented in volume, reporting on overfulfillment and preterm fulfillment of 1953 plans by food enterprises from all areas of the USSR.

b. The unusual (in comparison with previous years) amount of press coverage which, since the spring of 1953, has been devoted to successes and problems in the development of the food industry.

c. The decree issued by the USSR Council of Ministers and the Central Committee of the CPSU "On the Increasing Production of Foodstuffs and Improving Their Quality."

Izvestiya, 15 July 1953, p. 2, "Improve Quality of Local Industry Products":

8. The Director of Technical Administration of the Ministry of Local Industry, RSFSR, stated that surveys of consumer goods manufactured by local and cooperative industry in RSFSR were being conducted (July 1953) as a step to improve the quality of output. He also added that trade organs, specialists, and consumers were participating in surveys.

Izvestiya, 10 August 1953, p. 5, speech by A.Ye. Petruchev:

9. A.Ye. Petruchev, Chairman of the Board of USSR Central Soviet of Producer Cooperatives, stated that Union-Republic Councils of

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Ministers and the Central Soviet of Producer Cooperatives had worked out measures, on the instructions of the Soviet government, for the improvement of the furniture production in the Central Asian republics and the eastern districts of the RSFSR and for the increasing of production and broadening the assortment of enamelware, hardware, and loudspeakers.

FBIS, 10 September 1953, Armenian SSR meeting of the Supreme Soviet:

10. At a meeting of the Supreme Soviet of the Armenian SSR, as a result of discussion of the question of increasing production of consumer goods during the next 2 to 3 years, it was planned that the Ministry of Local Industry of the Republic in 1954-55 would construct enterprises for the production of bedsteads, enameled and aluminum containers, furniture, and beer.

Pravda, 21 November 1953, p. 2, "Vital Tasks of Local Industry and Producer Cooperatives":

11. The Chief of the Department of Local and Cooperative Industry, Gosplan, USSR, announced that local and cooperative industry had been assigned the supplementary task for 1953 for production of consumer goods in the sum of more than 3 billion rubles in retail price.

M/Ag Contribution to ORR Project 7, "Indicators of Implementation of Recent Agricultural Decrees":

12. Numerous FBIS messages and newspaper items from Moscow and the provincial areas of the USSR indicate the following:

a. The return of considerable numbers of machinists and other specialized personnel in industry to work on collective farms and in machine-tractor stations (MTS's).

b. The reorganization of existing schools of mechanization and general agriculture.

c. The increase in enrollment of students in tractor-driving and maintenance schools as a result of the recent decrees.

d. The holding of seminars to instruct directors of MTS's in the use of the square-cluster (check-row) method of planting and seeding crops.

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e. The assigning of political organizers to collective farms and MTS's, where they are being treated with "care and solicitude."

f. The use of facilitates of the Central Administration for Road Transport and Highways to transport agricultural products from collective farms to markets.

g. The sale of collective farms products in increasing quantities by consumer cooperatives shops on a commission basis.

h. The sale of automobiles, trucks, feed, and building materials to collective farms which have sold products to the State in excess of their compulsory delivery quotas.

i. The construction of additional numbers of hotbeds and coldframes for use in vegetable production.

j. The construction of marketing facilities (sales booths and stalls) by consumer cooperative organizations to handle the products of collective farms and collective farmers.

Soviet Home Service, 11 November 1953, speech by Bardin:

13. "The development of Soviet machine building technique as well as the needs of the industry producing consumer goods demand from our metallurgy an increased production of deficient kinds of rolled metal, in particular thick sheet metal, light section steel, rolled wire, and rust-free steel."

"... Significant is the priority given to increased production of light section steel and rolled wire in the Five Year Plan. The increased production of these steel varieties needed by the light, food, and local industries is one of the indices of the peaceful development of Socialist economy."

Pravda, 14 August 1953, "Tractor Plant Expands Output of Consumers' Goods":

14. The consumer goods shop of the Chelyabinsk Tractor Plant is to produce 95 tons of aluminum ware in 1953, 20 tons more than produced in 1952.

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M/SF Contribution to ORR Project 7:

15. An unchanged indicator is the continuing preference or priorities assigned to the coal industry by the allotment of a relatively large sum of investment into housing for coal miners. For example, the coal industry in Kirghiz was assigned 44.7 million rubles (1953 ?), of which 11.3 million were to be spent for miners' housing. Coal miners, however, have long been one of the priority classes of industrial workers and have received preferred treatment in many ways.

FBIS, 2 October 1953, Moscow, Soviet Home Service:

16. "The Ministry of Transport has outlined and carried out the necessary measures which insure correct transport of foodstuffs and consumer goods by railway staff. Already in September the bulk of transport foodstuffs and consumer goods has increased noticeably."

FBIS, 14 August 1953, Moscow, Soviet Home Service:

17. "A high rate of development in the industries producing consumer goods and the further expansion of trade largely depend on the work of the transport system. Freight for agriculture must be given special attention by transport workers. Unfortunately, ... transport is not paying sufficient attention to carrying freight for the light and food industries and goods for the population."

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## APPENDIX B

INDEXES OF OUTPUT OF THE SOVIET ECONOMY BY SECTORS AND BRANCHES

I. Major Sectors	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
1. Industry	100 a/	112	123	133	145	158
	100 b/	114	128	137	149	162
a. Producer Goods	100 a/	112	122	133	147	161
	100 b/	114	130	140	152	165
b. Consumer Goods	100	113	124	132	142	154
2. Agriculture	100	103	108	103	106	109
3. Transportation	100	113	123	130	136	142
4. Communications	100	109	119	129	140	154
5. Construction	100	112	124	134	146	160
6. Trade	100	105	109	114	120	127
7. Services	100	105	111	117	123	130
II. Industry						
1. Energy						
a. Electric Power	100	114	130	147	167	188
b. Solid Fuels	100	108	114	121	128	136
c. POL	100	113	129	145	161	177
2. Metals						
a. Nonferrous	100	109	120	140	168	201
b. Ferrous	100	115	129	143	156	170
3. Fabricated Metals	100	114	125	134	149	167
a. Shipbuilding	100	103	105	105	106	107
b. Bearings	100	122	139	151	163	169
c. Construction Equipment	100	105	120	136	152	168
d. Automotive Equipment	100	110	115	117	122	128
e. Electrical Machinery	100	117	132	145	159	183
f. Electronic Equipment	100	138	172	203	228	266
a. Excluding defense industry.						
b. Including defense industry.						

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	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
3. Fabricated Metals (Continued)						
g. Railroad Equipment	100	109	115	119	124	128
h. Metalworking Machinery	100	130	164	210	260	320
i. Agricultural Machinery	100	115	126	137	164	189
j. Mining Machinery	100	108	117	127	137	147
k. Textile Machinery	100	141	148	153	162	182
l. Machine Tools	100	104	108	111	115	119
m. Food-Processing Machinery	100	113	127	141	272	410
n. Woodworking Machinery	100	120	144	173	208	250
o. Refrigeration Machinery	100	108	131	192	292	415
4. Chemicals	100	112	122	134	150	164
5. Construction Materials	100	121	148	160	187	211
6. Forest Products	100	101	104	107	110	110
7. Food Products	100	109	121	126	133	140
8. Manufactured Consumer Goods	100	117	127	137	149	163
9. Defense Industry	100	125	161	168	175	182
III. Agriculture						
1. Food Crops and Livestock Increments	100	103	108	103	106	109
2. Industrial Crops	100	105	97	107	110	113
GNP	100	109	119	124	132	141

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APPENDIX C

SOURCES

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6. FBIS, 16 Nov 1953, p. AA32.
7. Pravda, 28 Oct 1953.
8. Pravda, 30 Oct 1953.
9. FBIS, 26 Oct 1953, p. CC39. C.
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11. FBIS 189, USSR and Eastern Europe, 1953, pp. AA11-AA14.
12. FBIS 192, USSR and Eastern Europe, 1953, pp. AA22-AA26.
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